Putnam INVESTMENTS

Putnam Investments Stance on Retirement Savings Policy

With the announcement of the Ways and Means Tax Reform Working Group on Retirement/Pensions, and broader tax and budget reform evolving, the issue of tax-deferrals for retirement savings (such as 401(k) plans. IRAs and other savings vehicles) is on the table. This raises the threat of undercutting decades of Congressional action aimed – successfully – at encouraging millions of Americans to attain self-sufficiency in retirement. **Serious policymakers should, therefore, reject any proposal to cut or curb personal and workplace retirement savings incentives -- for several compelling reasons**.

First, savings incentives are not true tax "expenditures". They are simply deferrals of taxes over time. Current budget methodology seriously overestimates potential gains to the Treasury from reducing or eliminating these incentives. That is because under the Budget Act, scoring looks out only 10 years, while retirement savings programs have full-cost lifecycles that last for decades. Unlike other supposed tax "expenditures" these deferred assets come back as taxable income the moment they are actually drawn on by retirees. And they are then taxed at ordinary income rates, even though most assets in retirement accounts consist of accumulated capital gains, interest and dividends. A serious recent study by the American Society of Pension Professionals and Actuaries (ASPPA) suggests that this flawed methodology may overstate benefits to Treasury from cutting or curbing savings incentives by as much as 70%. (See: http://www.asppa.org/Main-Menu/govtaffairs/RET2012.aspx)

Second, cutting or curbing savings incentives could worsen elderly poverty for future generations. The scourge of elderly poverty, which has been significantly reduced in America since Social Security's enactment in the 1930's has again begun to rise, particularly among the "late" elderly, many of whom have exhausted their life savings. (See: http://www.ebri.org/pdf/notespdf/EBRI_Notes_04_Apr-12.EldPovty.pdf) Cutting or curbing retirement savings incentives today would almost surely worsen that threat for future generations.

Third, cutting savings incentives would likely cost millions of workers access to any workplace savings option at all. The single worst feature of the American retirement scene today is the lack of access for tens of millions of American workers to any savings options on the job. If the incentives for small and family owned businesses to offer savings plans to their employees are cut, thousands more small and owner-managed businesses would likely decide to drop coverage for their employees. Owners would likely find other ways to secure their own retirements and perhaps those of a few highly-compensated executives. Lower income workers would be hardest hit.

Unlike any other so-called tax "expenditure," workplace savings incentives – uniquely -- require business owners who receive them to offer access to similar savings to their employees. And data from the American Society of Pension Professionals and Actuaries (ASPPA) shows that among moderate income workers who enjoy access to workplace savings roughly 70% use these plans to help prepare for retirement. But among similarly-situated workers who have no savings plan on the job, fewer than 5% use IRAs to save. This suggests a clear conclusion: that the only real path to retirement security for working Americans runs through payroll deduction plans in the workplace, not through individual savings. (See: http://www.benefitspro.com/2012/02/17/5-ongoing-401k-plan-myths-debunked)

Fourth --and not least -- curbs or cuts to retirement savings programs are deeply opposed by super-majorities of American voters. Whether or not they enjoy access to workplace savings plans or save through IRAs, Americans oppose cuts or curbs to retirement savings by margins of 74% to 89%.. (See: America's Commitment to Retirement Security – http://www.ici.org/pdf/ppr_12_retir_sec_update.pdf). In other words, voting to cut or curb retirement savings incentives is not only bad policy, but bad politics as well.

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